



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT OF THE NATURAL RESOURCES  
AND ENVIRONMENTAL PROTECTION CABINET**

**Made as Part of the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended June 30, 1998**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
[WWW.KYAUDITOR.NET](http://WWW.KYAUDITOR.NET)**

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELE. (502) 564-5841  
FAX (502) 564-2912**



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## **INTRODUCTION**



**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET**  
**INTRODUCTION**  
**FOR THE YEAR ENDED JUNE 30, 1998**

**Introduction**

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

**Audit Approach**

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 1998 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Natural Resources and Environmental Protection Cabinet's organizational units and administrative bodies, to the extent necessary to consider and test the internal accounting and administrative control systems as required by generally accepted government auditing standards, the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133; and
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Natural Resources and Environmental Protection Cabinet administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth of Kentucky's general-purpose financial statements.

The Auditor of Public Account's office conducted the audit of the internal control, focusing on the following objectives:

- Considering the internal control at the Natural Resources and Environmental Protection Cabinet in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth of Kentucky.
- Determining if the Natural Resources and Environmental Protection Cabinet has an internal control to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**List Of Abbreviations/Acronyms Used In This Report**

AMLR	Abandoned Mine Land Reclamation
APA	Auditor of Public Accounts
CAP-SSSE	Community Assistance Program – State Support Services Element
CFDA	Catalog of Federal Domestic Assistance
KRS	Kentucky Revised Statutes
NA	Not Applicable or Not Available
NREPC	Natural Resources and Environmental Protection Cabinet
OMB	United States Office of Management and Budget
SEFA	Schedule of Expenditures of Federal Awards
SSWAK	Statewide Single Audit of Kentucky
STARS	Statewide Accounting and Reporting System
TVA	Tennessee Valley Authority
U.S.	United States
USDA	United States Department of Agriculture



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FEDERAL ASSISTANCE PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 1998**

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES	
		CASH	NONCASH
<u>U.S. Department of Agriculture</u>			
Direct Programs:			
10.064 Forestry Incentives Program	NA	\$ 4,000	
10.069 Conservation Reserve Program	NA	24,202	
10.664 Cooperative Forestry Assistance (Note 3) (Note 4)	NA	1,365,809	\$2,935,054
10.901 Resource Conservation and Development	NA	2,413	
NA USDA Natural Resources Conservation (Note 4)	NA		35,175
<u>U.S. Department of Defense</u>			
Direct Programs:			
12.113 State Memorandum of Agreement Program for the Reimbursement of Technical Services (Note 3)	NA	469,241	
NA Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	NA	61,364	
<u>U.S. Department of the Interior</u>			
Direct Programs:			
15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining (Note 2) (Note 3)	NA	13,193,422	
15.252 Abandoned Mine Land Reclamation (AMLR) Program (Note 2) (Note 3)	NA	15,842,963	
15.615 Cooperative Endangered Species Conservation Fund (Note 3)	NA	43,045	
<u>U.S. Small Business Administration</u>			
Direct Program:			
59.045 Natural Resource Development (Note 3)	NA	12,652	
<u>U.S. Tennessee Valley Authority</u>			
Direct Program:			
62.001 TVA Environmental Research Center (Note 3)	NA	22,464	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FEDERAL ASSISTANCE PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S #	EXPENDITURES	
		CASH	NONCASH
<b><u>U.S. Environmental Protection Agency</u></b>			
<b>Direct Programs:</b>			
66.001 Air Pollution Control Program Support	NA	\$ 1,351,850	
66.419 Water Pollution Control – State and Interstate Program Support	NA	1,185,211	
66.432 State Public Water System Supervision	NA	855,423	
66.438 Construction Management Assistance	NA	528,220	
66.454 Water Quality Management Planning (Note 3)	NA	265,352	
66.460 Nonpoint Source Implementation Grants	NA	1,103,061	
66.461 Wetlands Protection – Development Grants (Note 3)	NA	80,939	
66.463 National Pollutant Discharge Elimination System Related State Program Grants (Note 3)	NA	82,744	
66.467 Wastewater Operator Training Grant Program (Technical Assistance)	NA	40,000	
66.606 Surveys, Studies, Investigations and Special Purpose Grants (Note 3)	NA	38,259	
66.701 Toxic Substances Compliance Monitoring Cooperative Agreements	NA	177,071	
66.708 Pollution Prevention Grants Program (Note 3)	NA	8,961	
66.801 Hazardous Waste Management State Program Support	NA	1,521,593	
66.802 Superfund State Site – Specific Cooperative Agreements	NA	398,049	
66.804 State Underground Storage Tanks Program	NA	186,675	
66.805 Leaking Underground Storage Tank Trust Fund Program	NA	897,731	
66.808 Solid Waste Management Assistance (Note 3)	NA	58,635	
66.809 Superfund State Core Program Cooperative Agreements	NA	74,641	
NA Surveys, Studies, Investigations	NA	68,952	
<b>Passed-Through From Kentucky Infrastructure Authority:</b>			
66.458 Capitalization Grants for State Revolving Funds	NA	895,562	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FEDERAL ASSISTANCE PROGRAMS**  
**FOR THE YEAR ENDED JUNE 30, 1998**  
**(CONTINUED)**

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE		PASS-THROUGH GRANTOR'S #	EXPENDITURES	
			CASH	NONCASH
<b><u>U.S. Department of Energy</u></b>				
<b>Direct Programs:</b>				
81.039	National Energy Information	NA	\$ 4,668	
81.041	State Energy Program (Note 3)	NA	556,410	
81.050	Energy Extension Service	NA	60,494	
81.052	Energy Conservation for Institutional Buildings (Note 3)	NA	126	
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight (Note 3)	NA	1,741,573	
<b><u>U.S. Federal Emergency Management Agency</u></b>				
<b>Passed-Through From Department of Military Affairs:</b>				
83.105	Community Assistance Program - State Support Services Element (CAP-SSSE)	NA	89,784	
<b>Total Natural Resources and Environmental Protection Cabinet</b>			<b>\$43,313,559</b>	<b>\$ 2,970,229</b>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 1998**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies**

**Purpose of the Schedule** - OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

**Basis of Presentation** - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in that Circular, federal financial assistance "...means assistance provided by a federal agency in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations, but does not include direct federal cash assistance to individuals. It includes awards received directly from federal agencies, or indirectly through other units of State and local governments." Accordingly, the accompanying schedules include both cash and noncash federal financial assistance programs. Those programs which have not been assigned a catalog number, or for which the catalog number was not available, have been shown at the bottom of the relevant federal grantor subheading.

**Reporting Entity** - The Natural Resources and Environmental Protection Cabinet is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth of Kentucky entity for financial reporting purposes. The accompanying Schedule of Expenditures of Federal Awards of the Natural Resources and Environmental Protection Cabinet presents only that portion of the federal financial assistance of the Commonwealth of Kentucky that is attributable to the transactions of the Natural Resources and Environmental Protection Cabinet.

**Basis of Accounting** - The accompanying Schedule of Expenditures of Federal Awards - Cash Assistance Programs is presented on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. KRS 45.229 provides that the Finance and Administration Cabinet may, "... for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose." However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth's general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards - Cash Assistance Programs may not be directly traceable to the general-purpose financial statements in all cases.

The accompanying Schedule of Expenditures of Federal Awards - noncash assistance programs presents the noncash assistance expended by the Natural Resources and Environmental Protection Cabinet during the period July 1, 1997 through June 30, 1998, using the method of basis of valuation as described in the schedule for each program. These noncash assistance programs are not reported in the Commonwealth's general-purpose financial statements for the year ended June 30, 1998.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)**

**Inter-agency Activity** - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Natural Resources and Environmental Protection Cabinet's Schedule of Expenditures of Federal Awards as follows:

- (a) Federal moneys may be received by one state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency-subrecipient) where the moneys are expended. Except for pass throughs to state universities as discussed below, this inter-agency transfer activity is reported in the Natural Resources and Environmental Protection Cabinet's Schedules of Expenditures of Federal Awards as follows:
  - Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
  - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the Commonwealth's schedules exclude federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedules as an expenditure of that state agency.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the Natural Resources and Environmental Protection Cabinet's schedules only by the purchasing agency as an expenditure.

**Note 2 - Type A Programs**

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal awards exceeded \$12 million. In relation to noncash federal financial assistance, this threshold is generally applied to the amount of assistance expended during the year as presented on the noncash portion of the Schedule of Expenditures of Federal Awards, plus any cash expenditures under the same CFDA designation.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 1998  
(CONTINUED)**

**Note 2 - Type A Programs (Continued)**

The Natural Resources and Environmental Protection Cabinet had two programs (cash and noncash) that met the Type A major program definition for the year ended June 30, 1998:

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	\$ 13,193,422
15.252	Abandoned Mine Land Reclamation Program	<u>\$ 15,842,963</u>
		<u>\$ 29,036,385</u>

**Note 3 - Subrecipient Activity**

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a Federal program. The following list summarizes the amount of federal funds sent to subrecipients.

<u>CFDA #</u>	<u>Federal Program Name</u>	<u>Amount Sent</u>
10.664	Cooperative Forestry Assistance	\$ 245,088
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	294,223
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	118,896
15.252	Abandoned Mine Land Reclamation Program	5,060,751
15.615	Cooperative Endangered Species Conservation Fund	10,600
59.045	Natural Resources Development	16,152
62.001	TVA Environmental Research Center	19,500
66.454	Water Quality Management Planning	97,737
66.461	Wetlands Protection – Development Grants	13,506
66.463	National Pollutant Discharge Elimination System Related State Program Grants	70,505
66.606	Surveys, Studies, Investigations and Special Purpose Grants	(2,707)
66.708	Pollution Prevention Grants Program	8,257
66.808	Solid Waste Management Assistance	18,653
81.041	State Energy Program	14,469



**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**Note 3 – Subrecipient Activity (Continued)**

<b>CFDA #</b>	<b>Federal Program Name</b>	<b>Amount Sent</b>
81.052	Energy Conservation for Institutional Buildings	\$ 665,875
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	1,737,623
NA	Surveys, Studies, Investigations	<u>68,375</u>
Total Amount Sent to Subrecipients		<u>\$ 8,457,503</u>

**Note 4 – Noncash Expenditure Programs**

The Natural Resources and Environmental Protection Cabinet had two noncash programs for the year ended June 30, 1998. These noncash programs and a description of the method/basis of valuation follow.

<b>CFDA #</b>	<b>Program Title</b>	<b>Amount</b>	<b>Method/Basis of Valuation</b>
10.664	Cooperative Forestry Assistance	\$ 2,935,054	Original acquisition cost of equipment
NA	USDA Natural Resources Conservation	<u>35,175</u>	Soil Conservation Service assistance paying salary.
		<u>\$ 2,970,229</u>	

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**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**





# Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
James E. Bickford, Secretary  
Natural Resources and Environmental Protection Cabinet

## Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards

### Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Natural Resources and Environmental Protection Cabinet (NREPC), an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The NREPC's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the NREPC's management. Our responsibility is to express an opinion on the NREPC's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NREPC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on NREPC's compliance with those requirements.

In our opinion, NREPC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
James E. Bickford, Secretary  
Natural Resources and Environmental Protection Cabinet  
Report On Compliance With Requirements Applicable To Each  
Major Program And Internal Control Over Compliance In Accordance  
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards  
(Continued)

#### Internal Control Over Compliance

Management of NREPC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered NREPC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect NREPC's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 98-NREPC-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not consider the reportable condition described above to be a material weakness.

#### Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of Commonwealth of Kentucky as of and for the year ended June 30, 1998, and have issued our report thereon dated January 30, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Commonwealth of Kentucky's general-purpose financial statements.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
James E. Bickford, Secretary  
Natural Resources and Environmental Protection Cabinet  
Report On Compliance With Requirements Applicable To Each  
Major Program And Internal Control Over Compliance In Accordance  
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards  
(Continued)

Schedule of Expenditures of Federal Awards (Continued)

As described in Note 1, the Schedule of Expenditures of Federal Awards of the Natural Resources and Environmental Protection Cabinet is intended to present only that portion of the expenditures of federal awards of the Commonwealth of Kentucky that is attributable to the transactions of the Natural Resources and Environmental Protection Cabinet.

The general-purpose financial statements of the Commonwealth of Kentucky are prepared on the accrual/modified accrual basis of accounting. However, the Schedule of Expenditures of Federal Awards of the NREPC is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the expenditures of federal awards in conformity with generally accepted accounting principles.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Expenditures of Federal Awards of the NREPC is fairly stated, in all material respects, in relation to the Commonwealth of Kentucky's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork complete –  
July 23, 1999





**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 1998**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statement Accounts And Schedule Of Expenditures Of Federal Awards**

Financial Statement Accounts: We did not perform a financial statement audit.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Natural Resources and Environmental Protection Cabinet’s Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with generally accepted accounting principles. The opinion was issued in relation to the Commonwealth of Kentucky’s general-purpose financial statements taken as a whole.

Internal Control Over Financial Reporting: We did not perform a financial statement audit.

Compliance: In relation to the audit of the Natural Resources and Environmental Protection Cabinet’s accounts that we audited, and the Schedule of Expenditures of Federal Awards, the results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

**Federal Awards**

Internal Control Over Compliance: Our consideration of the Natural Resources and Environmental Protection Cabinet’s internal control over compliance disclosed a reportable condition. We do not believe this condition constitutes a material weakness.

Compliance: We issued an unqualified opinion on the Natural Resources and Environmental Protection Cabinet’s compliance with the requirements applicable to each of its major federal programs.

**Identification Of Major Programs**

OMB Circular A-133 defines a major program as “a Federal program determined by the auditor to be a major program in accordance with section \_\_.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section \_\_.215 (c).” Section \_\_.520 states, “The auditor shall use a risk-based approach to determine which Federal programs are major programs.” The following is a list of major Type A programs audited:

<b><u>CFDA #</u></b>	<b><u>Program Title</u></b>	<b><u>Expenditures</u></b>
15.252	Abandoned Mine Land Reclamation Program	\$ 15,842,963

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**Identification Of Major Programs**

The following is a list of Type B programs audited as a major programs:

<b><u>CFDA #</u></b>	<b><u>Program Title</u></b>	<b><u>Expenditures</u></b>
10.664	Cooperative Forestry Assistance	\$ 4,300,863

**Dollar Threshold Used To Distinguish Between Type A And Type B Programs**

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$12,000,000.

**Auditee Qualify As Low-Risk Auditee?**

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Compliance:**

**There were no financial statement audit findings.**

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Reportable Conditions Relating to Internal Control and/or Compliance:**

**FINDING 98-NREPC-1: The Natural Resources and Environmental Protection Cabinet Should Improve Its Controls Over Preparation Of The Schedule Of Expenditures Of Federal Awards**

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State Agency: Natural Resources and Environmental Protection Cabinet

Federal Program: Various

Federal Agency: Various

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

The Finance Branch, within the Natural Resources and Environmental Protection Cabinet (NREPC), did not submit the Schedule of Expenditures of Federal Awards (SEFA) and accompanying notes and Schedule of Subrecipients to the Auditor of Public Accounts (APA) by the December 1, 1998 due date. An incomplete SEFA was not submitted to the APA until after the date of the NREPC Entrance Conference on May 17, 1999. The omitted notes and schedules were submitted piecemeal over the next six weeks. Additionally, the Finance Branch did not reconcile the Abandoned Mine Lands, Surface Mining Reclamation, and Cooperative Forestry Assistance programs with appropriate Statewide Accounting and Reporting System (STARS) records as of June 30, 1998.

According to the APA's published Preparation Instructions for the SEFA, the deadline for submitting the FY 98 SEFA was December 1, 1998. The date was established and communicated to the NREPC in advance to enable the APA to complete the Statewide Single Audit of Kentucky by the federally mandated deadline of July 31, 1999. This type of noncompliance reduces the reliability of the NREPC's federal schedule, and, to a lesser degree, the state's schedule, along with the ability to complete the audit in a timely manner.

According to the Instructions for FFA2 – Schedule of Cash Programs, Step 2:

Information contained in the schedule should be reconciled to the Statewide Accounting and Reporting System (STARS), with documentation of the reconciliation retained. This will ensure that the schedule, although based on agency records both manual and automated, will agree to the official accounting records of the Commonwealth of Kentucky, which will have been agreed to the Commonwealth's general-purpose financial statements.

This reconciliation should encompass both receipts and expenditures and should be done on a grant-by-grant basis, if possible.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-NREPC-1: The Natural Resources and Environmental Protection Cabinet Should Improve Its Controls Over Preparation Of The Schedule Of Expenditures Of Federal Awards (Continued)**

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If the agency chooses to maintain grant accounting records on an accounting package other than the grant accounting package provided in STARS, the agency must reconcile those records to STARS. NREPC uses a grant accounting package other than STARS and performs monthly reconciliations; however, the reconciliations are not made to STARS for federal schedule preparation.

**Recommendation**

We recommend the NREPC's Finance Branch submit the completed and reviewed Schedule of Expenditures of Federal Awards to the Auditor of Public Accounts by the deadline published in the APA Preparation Instructions for the SEFA. We also recommend the Finance Branch prepare a comprehensive reconciliation of their accounting records for all federal programs with appropriate STARS records as part of the preparation of the Schedule of Expenditures of Federal Awards.

**Agency Response**

*NREPC will submit the report timely in the future. Each grant was reconciled to STARS records, only the compilation of these reconciliations was not completed.*

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**



**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 1998**

**There were no prior year audit findings.**